INFORMATION BULLETIN

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Improvements to the Refundable Tax Credit for Individuals Living in a Northern Village

Fourteen northern villages lie north of the fifty-fifth parallel, near the shores of Hudson Bay, Hudson Strait and Ungava Bay. Since the signature of the Agreement concerning James Bay and Northern Québec, the population of these villages, 90% of which is Inuit, has had access to the same public services and is subject to the same tax responsibilities as other citizens of Québec.

However, because of their remoteness, climate and a cost of living higher than elsewhere, these villages are very special communities. To recognize the features of these communities, the tax system has granted, since 1998, a refundable tax credit to individuals who live in a municipality constituted in accordance with *An Act respecting Northern villages and the Kativik Regional Government*,[1] hereunder called "northern village".

The tax credit to which an individual may be entitled for a year is based on the number of months during which he lived in a northern village, the composition of his household and his family income.

In general, the tax credit granted for a given year is paid in two equal instalments in August and December of the following year.[2]

Under the existing tax system, for each month during which an individual lives in a northern village during 2006, he is granted an amount of $40, which is doubled if he has a spouse. For each of these months, he is also entitled to an amount of $15 for each child regarding which he or his spouse received a child assistance payment or deducted an amount on account of the tax credit for an adult child at school,[3] hereunder called "dependent child".

All the amounts thus determined regarding the individual are then reduced at a rate of 15% for each dollar of the individual's family income for the year that exceeds the reduction threshold applicable for the year, i.e. $28 710 for 2006.

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1 The villages of Akulivik, Aupaluk, Inukjuak, Ivujivik, Kangiqsualujjuaq, Kangiqsujuaq, Kangirsuk, Kuujjuaq, Kuujjuarapik, Puvirnituq, Quaqtaq, Salluit, Tasiujaq and Umiujaq are northern villages.

2 Where the amount of the tax credit determined for a year is equal to or less than $50, it is paid in full during August of the following year.

3 As of taxation year 2007, the reference to an amount deducted on account of the tax credit for an adult child at school must be replaced, further to the 2007-2008 Budget Speech, by a reference to an amount deducted on account of the transfer of the recognized parental contribution.

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Accordingly, for taxation year 2006, a couple with two children and a family income below $28 710 is entitled to a tax credit of $1 320, payable in two equal instalments of $660.

Each of the parameters of the refundable tax credit for individuals living in a northern village, apart from the 15% reduction rate, has been indexed annually since taxation year 2002.

❑ Increase in the monthly amounts granted for 2006

To increase the tax assistance granted to low and middle-income households living in a northern village, the monthly amounts granted to an individual and his spouse for the purposes of calculating the refundable tax credit for individuals living in a northern village will be raised by 50%, while the monthly amount for a dependent child will be raised by 66 ⅔%, retroactively to taxation year 2006.

More specifically, the basic monthly amount and the monthly amount for a spouse will rise from $40 to $60, while the monthly amount for a dependent child will be raised by $10, to $25.

In the case of a couple with two children and a family income below $28 710, the tax credit will rise from $1 320 to $2 040 for 2006, an increase of $720.

❑ Payment details

Since the process relating to the first instalment of the tax credit for taxation year 2006 has already been completed,[4] 50% of the portion of the tax credit calculated for the year that is attributable to the increase in the various monthly amounts will, generally speaking, be paid in the last week of September 2007.

For greater clarity, the taxpayers concerned will be deemed to have paid the Minister of Revenue, during September 2007, as an instalment on their tax payable for taxation year 2006, 50% of the increase determined in their regard for the year, unless they no longer resided in Québec on August 1, 2007.

However, if the tax credit calculated for 2006 without taking the increase into account is equal to or less than $50, the amount paid during September 2007 will be equal to the excess of 50% of the tax credit calculated for the year taking the increase into account over the amount of the tax credit paid in August 2007.

However, if the increase granted for 2006 is equal to or less than $50, the entire increase will be paid in one instalment in September 2007.

4 The first instalment of the tax credit for 2006 will be made in the week of August 27, 2007.

In the event that the taxpayer who claimed the refundable tax credit for individuals living in a northern village dies before September 1, 2007, the amount of the increase to which he would have been entitled will be paid to the person who was his spouse at the end of 2006, provided such person submits a claim for it in writing to the Minister of Revenue no later than the date by which the tax return of the deceased taxpayer must by filed for the year of his death. Nonetheless, this requirement need not be satisfied if the spouse of the deceased taxpayer otherwise submitted to the Minister of Revenue a claim to receive the first or second instalment of the tax credit determined regarding the taxpayer for 2006.

Moreover, during December 2007, taxpayers who have claimed the tax credit for 2006 will receive a final payment[5] corresponding to 50% of the tax credit calculated for 2006 taking the increase into account, unless all of the increase attributable to the year was paid to them in September 2007.

❑ Indexing of monthly amounts granted

The automatic annual indexing formula will apply to the monthly amounts of $25 and $60 granted retroactively to taxation year 2006 for taxation year 2007 and subsequent taxation years. Accordingly, taking the indexing factor applicable to taxation year 2007[6] into account, the basic monthly amount and the monthly amount for a spouse for 2007 will rise from $60 to $61, while the monthly amount for a dependent child will rise from $25 to $26.

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For information on the subject of this Information Bulletin, contact the Secteur du droit fiscal et de la fiscalité at 418 691-2236.

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Paper copies are also available, on request, from the Direction des communications, at 418 528-9323.

5 Provided they reside in Québec at the beginning of December 2007.

6 I.e. a factor of 2.02651645256577%.
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